



Farm Service Agency

United States Department of Agriculture
Kansas State Office

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Guaranteed Loan Program News

14th Edition

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This newsletter is sent to you as our continued effort to keep you updated on guaranteed loan issues. Comments and questions may be directed to your local office or to the State Farm Loan Program Staff at (785) 587-8709. The Farm Loan Program Chief can be e-mailed at arlyn.stiebe@ks.usda.gov. Other FSA staff can be e-mailed by using their first and last name in a format similar to the above addresses.

New Guaranteed Loan Specialist

The Kansas State Office has welcomed Shelly Wolf on board as our newest Farm Loan Specialist. As many may know, Karen Jones left our Agency in October 2005 to pursue other interests. Shelly has a long history with Farm Service Agency and began her employment in the Pratt FmHA Office in March of 1982. She later transferred to the Wellington FmHA Office in June 1990, which later

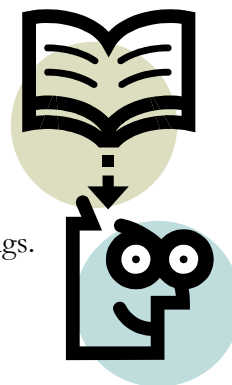


transformed into the name our Agency wears today: Farm Service Agency. Shelly was promoted to a Farm Loan Officer and received loan officer training in the Winfield FSA Office from 1997 – 1998 and was placed back in the Wellington Office as the Farm Loan Officer until she received a promotion to Farm Loan Manager in March of 2003, which took her to Dodge City. Shelly came to Manhattan on April 3, 2006 where she brings valuable experience from the field to be Kansas' new point contact for the guaranteed program.

Do not hesitate to contact Shelly at the above number or drop an email to: shelly.wolf@ks.usda.gov.

2-FLP Handbook Amendments

Please remember to keep your 2- FLP handbook up-to-date by regularly checking for recent amendments that are posted to the FSA website. Lenders need to review amendments as they are issued. Amendments are for the purpose of setting Agency policy, clarifying Agency policy, making corrections and inserting changes in Agency regulatory requirements. The latest amendments and forms are available to view and download at: <http://www.fsa.usda.gov/dafl/guaranteed.htm>. An option to keep up-to-date on amendments is to register, on line, for such postings. You will be automatically notified via email when amendments are issued.



Proposed Rule for Regulation 2-FLP Revisions

On May 15, 2006, FSA published a proposed rule in the Federal Register to increase Guaranteed Loan Fees. The regulation posted as document number: **FSA-2006-0015-0001** can be accessed through the following web link: <http://www.regulations.gov/fdmspublic/component/main>

The President's FY 2007 budget proposes the following changes to the guarantee fees:

- ✓ Establish origination fee of 1.5%
- ✓ An additional annual fee of $\frac{3}{4}\%$ is being considered on LOC renewals
- ✓ Fees on loans with Interest Assistance will have a separate rule, not presently addressed under this rule
- ✓ No fee will be charged to beginning farmers or ranchers in the direct beginning farmer down payment program

Illustration of Cost based on a 1.5% origination fee:

G-OL 7 yr term loan

$$\$300,000 \times 90\% \times 1.5\% = \$4,050$$

G-OL-LOC

$$\$500,000 \times 90\% \times 1.5\% = \$6,750$$

$$\text{Year 2: } \$500,000 \times 90\% \times .75\% = \$3,375$$

$$\text{Year 3: } \$500,000 \times 90\% \times .75\% = \$3,375$$

$$\text{Year 4: } \$500,000 \times 90\% \times .75\% = \$3,375$$

$$\text{Year 5: } \$500,000 \times 90\% \times .75\% = \$3,375$$

Total fees for LOC: \$20,250

Grand Total fees for 2 loans: \$24,300 vs. fees presently of \$10,800

What can you do?

The Proposed Rule was published in the Federal Register on May 15, 2006 as stated above. Use the comment period to voice your legitimate concerns. Email: Galen.VanVleet@wdc.usda.gov and include "guarantee fees" in the subject line. Comments are due no later than July 14, 2006.

Term Limit Waiver:



Within the 1992 Farm Bill, certain time limitations were enacted on how many years a FSA borrower (direct or guaranteed) could receive loan assistance.

The term limitation for a borrower receiving guaranteed loan assistance was 15 years. On June 20, 2000, the guaranteed term limitation was suspended. Within the 2002 Farm Bill, direct loan term limitations were revised and made effective once again on direct loans; however, the suspension on

guaranteed loans stayed in effect. The suspension waiver of this 15-year rule will expire on December 31, 2006, if not extended.

This means that a guaranteed borrower would not be able to receive a G-OL if the borrower had a Direct OL and/or Guaranteed OL loan closed in more than 15 years. **Note:** After 10/28/92, future advances on LOCs are counted as a year of eligibility used.

When Junior Liens are acceptable

On 11/28/05; 2-FLP was amended, which in part affected Paragraph 166 D. It was amended to:

- remove the lien position restriction when a guaranteed loan is made for refinancing purposes.
- clarify when junior lien positions are acceptable.

All guaranteed loans will be secured by the highest lien position obtainable. Junior lien positions are acceptable only if the total amount of debt with liens on the security, including the debt in junior lien position, is less than or equal to 85% of value of the security.

The note under the second bullet of Paragraph 166 D reads, “When guaranteed and unguaranteed loans share equal lien positions, neither loan will be considered junior. In these situations, the lender must agree that if any equally shared security is liquidated, the net proceeds shall be divided pro-rata based on the amounts loaned.”

Kansas will continue to recognize lien positions, as we have done in the past, and will not necessarily share equal lien positions with guaranteed and unguaranteed loans as noted above. Therefore, if you make a guaranteed loan; the lender has met the 85% rule and the guaranteed loan will be junior to its already existing first lien, the guaranteed loan will be considered junior and in second lien position. Kansas will not divide net proceeds using a pro-rata share based on the amounts loaned as discussed in the subject paragraph. Net proceeds will be disbursed and based on the lien position held.

Additionally, please keep in mind when a junior lien is taken, your existing prior lien instruments will not contain future advances clauses.

Funding Update

Kansas was allocated \$30,332,067 in guaranteed operating type loan funds for fiscal year 2006, which began October 1, 2005. Of that amount, \$28,019,216 has been obligated. For the direct farm ownership loan program, \$23,463,000 was allocated and \$11,664,382 has been obligated. These amounts do not include another \$6,036,872 under the operating loan program **with** interest assistance that is on a waiting list, waiting to be funded in fiscal year 2007. Loan funds are appropriated every fiscal year with our new fiscal year 2007 beginning October 1, 2006. Congress appropriates funding according to dollars utilized. Thank you for using the guaranteed program to meet the credit needs of Kansas farmers and ranchers.



Certified Lender Program

The Certified Lender Program (CLP) permits Standard Eligible Lenders (SEL) with a proven track record in making and servicing guaranteed loans to operate under streamlined procedures. CLP lenders have the flexibility of using their own forms and many of their own processes with minimal Agency involvement to administer guarantee loans. Loan applications are typically approved in 14 days or less.

A lender currently holding SEL status may qualify for CLP status. Lenders, combined with its branch bank's guaranteed loan activity, must have closed a minimum of 10 guaranteed loans ever and five loans in the past two years. The bank cannot have a loss to the government exceeding 7%. Refer to 2-FLP Paragraph 49 E for additional information.

Contact your local FSA Farm Loan Program Office for additional information or feel free to contact the Kansas State FSA Office.



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